Mid-West University

Examinations Management Office

Surkhet, Nepal

Final Examination-2079

Master of Business Studies (MBS)

Semester - II

Subject: Cost and Management Accounting — Course Code: MGMT 525

Full Marks: 60 Pass Marks: 30 — Time: 3: 00 Hours

You are required to answer in your own words as far as applicable. Figures in the margins indicate full marks.

SECTION A: CRITICAL THINKING QUESTIONS (10 X 1 = 10 MARKS)

*Answer **ALL** the questions:*

1. Briefly explain management accounting.
2. Outline the process for making decision for making or buying.
3. Give the suitable examples of avoidable and unavoidable costs.
4. Point out any four applications of tender sheet for managers.
5. Outline any four major assumptions of cost volume profit analysis.
6. A motorcycle part has the selling price per unit Rs. 160, variable cost per unit Rs. 100 and total fixed cost Rs. 150,000. Based on the above information, determine the sales volume in unit to achieve profit after tax Rs. 80,000(tax rate 30%)
7. Differentiate between budget and budgetary control.
8. A micro-bus service owner has estimated cost based on running kilometer are as follows:

Expenses	At 1,000 km. (Rs.)	At 2,000 km. (Rs.)
Repair and maintenance	24,000	30,000
Driver salary	50,000	50,000
Fuel	20,000	40,000

Required: Determine budgeted allowances by using formula at 1,600 km.

9. What is market-based transfer pricing?
10. The following pieces of information are past and budgeted

Month	January	February	March	April
Sales revenue Rs.	2,00,000	300,000	4,00,000	5,00,000

The gross profit margin on sales will be 40 %. The desired ending inventory of merchandise will be equal to meet the next month's sales need. Begging inventory of merchandise was Rs. 150,000.

Required: - Cost of goods sold budget for three months ending March.

SECTION B: SHORT ANSWER QUESTIONS (3 X 8 = 24 MARKS)

*Answer any **THREE** questions:*

11. What is Zero Based Budgeting (ZBB) system? Explain its features and process. [2+3 +3]
12. Give the concept of drop or continue decision in prospective of cost accounting subject. Also explain the considering factors when taking decision on it. [3+5]
13. A company sells three different products named X, Y and Z. The top executives are considering changes in the sales mix. The sales goal has been set Rs.24, 000 for all three products combined. Total advertising and selling efforts can be arranged to obtain the sales of various products to agree with the best sales mix. The fixed cost budget is Rs.3, 312. The variable cost ratio based on sales is product X-70%, product Y- 80% and product Z-90%. The executive is considering two alternatives sales mix combination.

Alternatives	Product X	Product Y	Product Z	Total
1	50%	30%	20%	100%
2	70%	20%	10%	100%

Required: -

a. Evaluate each sales mix alternatives in term of contribution margin, profit, BEP and margin of safety. Which sales is preferable? [5]

b. Try to develop a better sales mix with a customer demand constraint that no product can have less than 10% or more than 80% of sales. [3]

14. (a) A manufacturing company produces products X and Y. X as a contribution of Rs.3 per unit and Y Rs.4 per unit. The company desires to have the weekly production plan that minimizes contribution. It provides the following information

Product	X	Y	Total available per week
Machinery (hours)	4	2	100
Labor(hours)	4	6	180
Materials (Kgs)	1	1	40

Sales of product X are limited maximum of 20 units per week and as per agreement at least 10 units of Y must be sold per week.

Required:

a. Graphical presentation for weekly optimal production plan to maximize contribution. [4]

b. Utilization of each constraint at the optimal activity level. [1]

(b) A company recently commenced production of a new product, Automatic Gas Stove, which required the investment of Rs.20,00, 000 in fixed assets. The cost of producing and selling 1,000 units Automatic Gas Stove are estimated are as follows:

Particulars	Amount Rs.
Unit **Variable costs:**	
Variable production costs	Rs. 3,000
Variable selling and distribution	Rs.1,000
Total variable costs	Rs.4,000
Fixed costs:	
factory overheads	Rs.5, 00, 000
Selling and administrative	Rs.4,00, 000
Total fixed costs	Rs.9,00,000

The company is currently considering determining selling price of gas stove. The MD has decided to cost plus approach to Product pricing and has indicated that product must earn a 25% rate of return on invested fixed asset.

Required: Determine markup percent and selling price under variable costing method. [1+2]

15. A well established herbal soap manufacturing industry manufactures a special face wash soap named Leamon Herbal Soap in addition to existing product of Neem Soap and Allobhera Soap. Budgeted output for the next year 30,000 pieces Leamon Herbal Soap. The cost per unit of Leamon Herbal Soap are as follows:

Particulars	Amount
Direct materials (0.25. kg per piece of Leamon Herbal Soap output)	Rs.75,000
Direct labor	2 hrs. @ Rs.5 per hr.
Variable overhead	Rs.3 per DLH
Standing cost	Rs. 45,000
Variable selling and distribution overhead	Rs.90,000
Investment required for product to be produced in machinery Rs.5,00,000; and in working capital Rs. 300,000.	

Required:

a. Using the Return-on-Investment pricing method, fixed the price of Leamon Herbal Soap to yield a contribution to cover 30 % rate of investment. [4]

b. If product Leamon Herbal Soap is well-established product in a market, what would be the basis for fixation of price? [2]

c. If product Himalayan Herbal Soap is new product about to be lunched in the market, what should be the basis for fixation of price? [2]

SECTION C: LONG ANSWER QUESTIONS (2 X 13 = 26 MARKS)

*Answer any **TWO** questions:*

16. Management accounting depend on the information maintain by financial and cost accounting but success of managers is dependent on their personal judgment of dynamic issues in relation to management accounting. Give your comprehensive argument by supporting this statement based on

the limitations of financial, cost and management accounting. Also explain the issues and challenges of management accounting in the context of global competitive age.

[3+ 3 + 3 + 4]

17. (a) A Garment Company manufacturer three products named Shirt, Paint and T-shirt. the cost detail are as follows;

Particulars	Product Shirt		Product Paint		Product T-shirt	
	Unit	Unit Rs.	Unit	Unit Rs.	Unit	Unit Rs.
Sales	6,000	1,200	11,000	1,800	4,000	1,500
Direct material	4	350	7	500	5	340
Direct labor		150		350		260
Direct expenses		100		250		100

Total fixed cost Rs. 50,00,000. The direct materials are imported. Due to foreign exchange restrictions, the company can import only 107,000 units of raw materials. The company can produce in all 25,000 units maximum (all products). However, they can market only 8,000 units of product Shirt and T-shirt each.

Required:

a. Present a statement of budgeted profitability. [4]

b. Set optimal product mix and calculate the optimal profit. [4]

(b) A textile mill produces Woolen, Polyester and Cotton cloth, operating cost are as follows; -

Particulars	Woolen (Rs.)	Polyester (Rs.)	Cotton (Rs.)	Total (Rs.)
Sales	12,500	7,500	5,000	25,000
Less: -Variable cost	5,000	2,500	3,000	10,500
Contribution margin	7,500	5,000	2,000	14,500
Less: -fixed cost	6,000	4,000	2,800	12,800
Profit or loss	1,500	1,000	(800)	1,700

Required: -

a. Will the profit figure improve by dropping cotton line? [3]

b. What will your answer be if the fixed cost of cotton line of Rs.800 can be eliminated by dropping the line? [2]

18. A trading company wants to prepare master budget on the basis of following information for the year 2023. As of march 31st, 2023 balance sheet and sales of company are as follows:

Balance sheet summery		Actual and forecasted sales and merchandise		
		Months	Sales Rs.	Cost of merchandise (50% of sales) Rs.
Liabilities and capital:	**Rs.**	Nov.	120,000	60,000
Share capital	120,000	Dec.	160,000	80,000
Account payable	80,000	Jan.	160,000	80,000
Total Liabilities and capital	**2,00,000**	Feb.	200,000	100,000
Assets: -		Mar.	240,000	120,000
Inventory of merchandise	80,000	Apr.	280,000	140,000
Debtor:				
Nov.'s sales 30,000				
Dec.'s sales 80,000	110,000			
Cash in hand	10,000			
Total assets	200,000			

a. Gross profit margin on sales is 50%. All merchandise purchases are paid on the following month of purchase.`1

b. Company's all sales are on credit. As per sales manager, 50% of credit sales are collected in the month of sales and remaining 50% credit sales are collected on the following two months of sales equally. Bad debt and uncollectable debtors are negligible.

c. Management expenses are 30% of sales which are payable on the month of their being due.

d. The company has a policy to maintain sufficient merchandise inventory to meet the necessary for following month's sales and a minimum cash balance Rs. 10,000.

e. The company has been going to purchase a photocopy machine in the month of January at a cost of Rs. 80,000.

f. The company has an agreement with Bank of Kathmandu, Surkhet for a soft loan at 12% interest annually and assumed that loan is taken in the first day of month and repayment is in the last day of the month. Loan is received in a multiple of Rs.5, 000 and repayment are in Rs.1, 000 and amount of interest due are paid for the loan with the repayment amount to a nearest of Rs. 100.

Required: -

a. Merchandise Purchase budget for first three month of 2023. [1]

b. Management expenses budget for first three month. [1]

c. Cash receipt and disbursement budget for first three month. [4]

d. Budgeted income statement for first three month. [2]

e. Budgeted balance sheet at the end of March. [2]

f. Total variable cost and fixed cost. [1]

g. Contribution margin. [1]

h. Required sales to earn profit after tax Rs. 5,00,000; tax rate 40%. [1]

THE END